Al Hilal Bank PJSC

Pillar 3 Report

30 June 2022

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1. Introduction and basis of preparation

1.1 Scope of Basel III Pillar 3 disclosures

The Basel Committee on Banking Supervision (BCBS) Basel III capital adequacy framework consists of three pillars. Pillar 1 provides a framework for measuring minimum capital requirements for credit, market and operational risks faced by banks. Pillar 2 allows banks and supervisors to take a view on whether the bank should hold additional capital to cover the three Pillar I risk types and/or to cover other risks, like liquidity, concentration, reputational, etc. Pillar 3 requires banks to publish a range of disclosures, mainly covering risk, capital, leverage, liquidity and remuneration.

This report provides Pillar 3 disclosures for Al Hilal Bank PJSC and its subsidiaries (together referred to as “AHB” or the “Bank”) for the period ended 30 June 2022

1.2 Significant capital adequacy, liquidity and funding related disclosure requirements

Capital adequacy, liquidity, funding and remuneration related disclosures in the Pillar 3 report have been prepared in accordance with Central Bank of UAE Standards and Guidance re Capital Adequacy in the UAE (Notice CBUAE/BSD/N/2020/4980 dated November 2020) and Explanatory Notes on Pillar 3 Disclosure requirements , the underlying BCBS guidance “Revised Pillar 3 disclosure requirements” issued in January 2015, the “Frequently asked questions on the revised Pillar 3 disclosure requirements” issued in August 2016, the “Pillar 3 disclosure requirements – consolidated and enhanced framework” issued in March 2017 and the subsequent “Technical Amendment – Pillar 3 disclosure requirements – regulatory treatment of accounting provisions” issued in August 2018, BCBS “Pillar 3 disclosure requirements - updated framework” – Dec 2018, and CBUAE Explanatory notes updated dated 9th May 2022.

2. Overview of Basel III requirements

The Bank complies with the Basel III standards and guidance notes which have been implemented in the UAE through notice reference CBUAE/BSD/N/2020/4980 dated November, 2020.

Basel requirements are structured around three 'pillars' which are outlined below:

Pillar I - deals with maintenance of regulatory capital calculated for three major components of risk that a bank faces: credit risk, market risk and operational risk. Other risks are not considered fully quantifiable at this stage;

Pillar II - allows banks and supervisors to take a view on whether the bank should hold additional capital to cover the three Pillar I risk types and/or to cover other risks like liquidity, concentration, reputational, etc. A bank's own internal models and assessments support this process. It also provides a framework for dealing with all the other risks a bank may encounter such as systemic risk, concentration risk, strategic risk, reputational risk, liquidity risk, legal risk, etc. This risk and capital assessment is commonly referred to as the Internal Capital Adequacy Assessment Process (ICAAP);

Pillar III - covers external communication of risk and capital information by banks as specified in the Basel rules. The aim of Pillar III is to provide a consistent and comprehensive disclosure framework by requiring institutions to disclose details on the scope of application, capital, risk exposures, risk assessment processes, capital adequacy, liquidity and funding position and leverage of the institution. It must be consistent with how the senior management including the board assess and manage the risks of the institution.

Basel III also provides for different approaches to calculating credit risk capital requirements:

Standardised approach — under this approach, the assets (including off-balance-sheet post-CCF) are classified into asset types defined by Basel guidelines to enable better risk sensitivity. The risk weights used to assess capital requirements against credit exposures are provided by the regulator(s) and is consistent across the industry.

Internal-ratings-based approach (IRB) **—** under this approach, the risk weights are derived from the Bank's internal models. The IRB approach is further sub-divided into two alternative applications- Foundation and Advanced:

Foundation IRB (FIRB) — Under this approach, the banks are allowed to develop their own models to estimate the PD (probability of default) for individual borrowers or groups of borrowers and use supervisory values for LGD (loss given default) and EAD (exposure at default) estimates. Banks can use this approach subject to approval from their local regulators.

Advanced IRB (AIRB) — under this approach, the banks are allowed to develop their own models to quantify PD, LGD and EAD required to estimate capital for credit risk. Banks can use this approach subject to approval from their local regulators.

2.1 AHB's approach to Pillar I

Credit risk:
Standardised approach is used by the Bank in calculating its capital requirements for credit risk. This approach allows the Bank to determine the risk weight by the asset class and the criteria applicable to the counterparty as per the regulatory guidance. The net exposure incorporates off balance sheet exposures after applying the credit conversion factors (CCF) and credit risk mitigants (CRM).

Market risk: The Bank uses the standardised approach for calculating regulatory market risk capital requirements.

Operational risk: The Bank uses the standardised approach for computing capital requirements for operational risk.

2.2 Minimum capital requirement

To achieve broader macro –prudential goal of protecting the banking sector from the periods of excess aggregate credit growth in addition to the capital conservation buffer (CCB) requirement, banks are required to maintain the countercyclical buffer (CCyB). Banks must meet CCB and CCyB requirement by using CET1 capital. The level of CCB requirement is set to 2.5% of risk weighted assets. The countercyclical buffer varies between zero and 2.5% of total risk weighted assets. The buffer that will apply to each bank will reflect the geographic composition of its portfolio of credit exposures.

Further, to reduce risks related to the failure of domestic systemically relevant institutions, the Central Bank of the UAE has introduced domestic systematically important banks (D-SIB) buffer. AHB is non-D-SIB and is not required to maintain a D-SIB buffer of 0.5%.

2.3 Leverage and liquidity ratios

In addition, Basel III prescribes a 3% minimum leverage ratio and two liquidity ratios viz; Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). LCR and NSFR is not mandatory for AHB. AHB complies with Central Bank of the UAE's Eligible Liquid Assets Ratio (ELAR) and Advances to Stable Resources Ratio (ASRR) regulatory framework.

In May 2015, the Central Bank of the UAE published "Regulations relating to Liquidity at Banks" circular number 33/2015 which is in effect till date. The regulations require banks to maintain ELAR of 10% at minimum and ASRR of 100% at maximum.

As at 30 June 2022, AHB's ELAR was 17.45% which is well above the minimum requirement of 10%, ASRR was 75.93% which is well below the maximum requirement of 100%, and Leverage ratio was 11.28% which is again well above the minimum requirement of 3%.

2.4 Standards for Standalone Capital Adequacy Ratio

In November 2020, the Central Bank of UAE had issued consultative draft standards on standalone capital adequacy ratio. Currently in the UAE banks are required to meet prudential capital requirements on a consolidated basis. In December 2020, following industry consultation Central Bank of UAE issued a draft version of standalone capital adequacy framework for UAE banks. Prior to its implementation, the Central Bank requires all local banks to file standalone capital return on a bi-annual basis, commencing from December 2020.

A preliminary assessment of standalone capital adequacy has been conducted and the Bank meets the minimum capital requirements.

2.5 Revised Standards for Pillar – III disclosures

Basel III standards and guidance notes which have been implemented in the UAE through notice reference CBUAE/BSD/N/2020/4980 dated 12 November 2020 laid out the revised disclosure requirements. These standards and guidance notes supersede the existing Pillar 3 disclosure requirements issued in 2009. Pillar 3 guidance was superseded by update dated 9th May 2022 issued by CBUAE. These revised requirements are derived from the Basel framework, and they complement other disclosure requirements issued separately by Central Bank. Pillar 3 Disclosure requirements apply to all banks in the UAE at consolidated level for local banks and all branches of foreign banks.

2.6 Impact on AHB

The UAE Central Bank has set a total capital adequacy ratio (CAR) of 13% and CET 1 ratio of 9.5% (including CCB buffers). As at 30th June 2022, AHB met the minimum requirements with a CAR of 18.45% and CET1 ratio of 17.33%.

2.7 Basis of consolidation

These Pillar III disclosures are in line with the consolidated financial statements as of 30 June 2022 comprise the Bank and its subsidiaries set out in (Note 36 of Financial Statement) (together referred to as the "Group"). The Group is primarily involved in Islamic retail and treasury related activities. The Bank carries out its operations through its branches in the United Arab Emirates and subsidiary located in Kazakhstan.

In accordance with paragraph 825 of International Convergence of Capital Measurement and Capital Standards issued by the Basel Committee, general disclosures of credit risk provided in this report have a wide range of information about overall credit exposure and may not be necessarily based on information prepared for regulatory purposes.

2.8 Verification

The Pillar III disclosures for the year ended 30 June 2022 have been appropriately verified internally.

2.9 Ownership

Al Hilal Bank PJSC (the "Bank") was incorporated in Abu Dhabi, United Arab Emirates ("UAE") on 18 June 2007 by virtue of Amiri Decree number 21 of 2007, with limited liability, and is registered as a Public Joint Stock Company in accordance with the United Arab Emirates Federal Law number 8 of 1984 (as amended), Union Law number 10 of 1980 (as amended) and United Arab Emirates Federal Law number 6 of 1985 regarding Islamic banks, financial institutions and investment companies.

On 29 January 2019, the Board of Directors of Abu Dhabi Commercial Bank PJSC ("ADCB") and the erstwhile Board of Directors of Union National Bank PJSC ("UNB") approved and recommended to their respective shareholders a merger of the two banks and acquisition of 100% of the issued share capital of the Bank by the combined bank (i.e. combined after erstwhile ADCB and UNB).

On 21 March 2019, the shareholders of ADCB and UNB approved the proposed merger pursuant to Article 283 (1) of UAE Federal Law No. 2 of 2015, through issuance of 0.5966 new shares in ADCB for everyone share of UNB, subject to the terms and conditions of the merger. Following the merger, ADCB and UNB shareholders own approximately 76% and 24% of the combined bank, respectively. On the effective date of the merger, UNB shares were delisted from the Abu Dhabi Securities Exchange. The combined bank has retained ADCB's legal registrations.

The shareholders of ADCB also approved the issuance by ADCB of a mandatory convertible bond ("bond") to the shareholder of the Bank as the acquisition price to acquire the entire issued share capital of the Bank. This bond was converted into 117,647,058 ADCB shares. Post-acquisition, ADCB holds 100% of the share capital of the Bank.

The effective date of above merger and acquisition was 1 May 2019.

As a part of strategic balance sheet management, the Bank entered into a Master Transfer Agreement with ADCB for the transfer and/or assignment of certain assets and liabilities of the Bank. Based on this agreement, the Bank transferred and/or assigned to ADCB certain portfolio assets which were identified by the Bank and ADCB together, with all of the Bank's rights, title, interests, duties and obligations (as applicable) under and in respect of the client agreements for such portfolio assets including, without limitation, the amounts owing to the Bank under any client agreements for the portfolio assets and all claims, suits, causes of action and any other rights of the Bank with respect to the portfolio assets. (refer to FS notes 12, 19, and 30 for further details).

3. Key Prudential Regulatory Metrics (at consolidated group level)

3.1 Key metrics for the Group (KM1)

The QoQ increase of AED 188 mn in total risk weighted assets (RWA) is mainly due to increase in Sukuk portfolio and AHB Kazakhstan Corporate portfolio.

	6/30/2022	3/31/2022	12/31/2021
Available capital (amounts)			
Common Equity Tier 1 (CET1)	1,576,867	1,621,395	1,689,113
Tier 1	1,576,867	1,621,395	1,689,113
Total capital	1,678,792	1,721,392	1,788,807
Risk-weighted assets (amounts)			
Total risk-weighted assets (RWA)	9,097,344	8,909,426	9,041,638
Risk-based capital ratios as a percentage of RWA			
Common Equity Tier 1 ratio (%)	17.33%	18.20%	18.68%
Tier 1 ratio (%)	17.33%	18.20%	18.68%
Total capital ratio (%)	18.45%	19.32%	19.78%
Additional CET1 buffer requirements as a percentage of RWA			
Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%	2.50%
Countercyclical bugger requirement (%)	0%	0%	0%
Bank D-SIB additional requirements (%)	0%	0%	0%
Total of bank CET1 specific buffer requirements (%)	2.50%	2.50%	2.50%
CET1 available after meeting the bank's minimum capital requirements (%)	7.95%	8.82%	9.28%
Basel III Leverage Ratio			
Total Basel III leverage ratio measure	13,982,557	13,829,619	13,697,554
Basel III leverage ratio (%)	11.28%	11.72%	12.33%
Liquidity Coverage Ratio			
Total HQLA			
Total net cash outflow			
LCR ratio (%)			
Net Stable Funding Ratio			
Total available stable funding			
Total required stable funding			
NSFR ratio (%)			
ELAR			
Total HQLA	2,020,535	1,926,088	1,647,361
Total liabilities	11,576,767	11,474,738	11,292,932
Eligible Liquid Assets Ratio (ELAR) (%)	17.45%	16.79%	14.59%
ASRR			
Total available stable funding	10,091,579	10,195,460	10,251,317
Total Advances	7,662,412	7,849,179	7,868,923
Advances to Stable Resources Ratio (%)	75.93%	76.99%	76.76%

3.2 Capital management

The Bank's capital management aims to guarantee solvency and maximise profitability, while complying with regulatory requirements and internal objectives. It is a key strategic tool for decision making, enabling us to set a common framework of actions, criteria, policies, functions, metrics and processes. Our active capital management applies strategies on efficient capital allocation to business lines. Our capital allocation model aims to ensure our capital allocation is right for the risks inherent in our operations and risk appetite to optimise value creation for our group and business units.

The ratios of this report are calculated by applying the Central Bank of UAE capital standards and guidelines as mentioned in section 2 of this report.

As at 30th June 2022, the CET1 ratio was 17.33% which is 795 bps above the regulatory minimum and CAR was 18.45% which is 545 bps above the regulatory minimum. The leverage ratio stood at 11.28% against a regulatory minimum of 3%.

3.3 Capital resources (CC1)

All capital instruments included in the capital base meet the requirements set out in the Central Bank of UAE capital standards and guidelines.

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	Amounts
Common Equity Tier 1 capital: instruments and reserves	
Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	4,750,000
Retained earnings	(3,046,361)
Accumulated other comprehensive income (and other reserves)	(110,049)
Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)	-
Common share capital issued by third parties (amount allowed in group CET1)	-
Common Equity Tier 1 capital before regulatory deductions	**1,593,590**
Common Equity Tier 1 capital regulatory adjustments	
Prudent valuation adjustments	-
Goodwill (net of related tax liability)	-
Other intangibles including mortgage servicing rights (net of related tax liability)	(16,723)
Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	-
Cash flow hedge reserve	-
Securitisation gain on sale	-
Gains and losses due to changes in own credit risk on fair valued liabilities	-
Defined benefit pension fund net assets	-
Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	-
Amount exceeding 15% threshold	-
Of which: significant investments in the common stock of financials	-
Of which: deferred tax assets arising from temporary differences	-
CBUAE specific regulatory adjustments	-
Total regulatory adjustments to Common Equity Tier 1	(16,723)
Common Equity Tier 1 capital (CET1)	1,576,867
Additional Tier 1 capital: instruments	
Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-
Of which: classified as equity under applicable accounting standards	-
Of which: classified as liabilities under applicable accounting standards	-
Additional Tier 1 capital before regulatory adjustments	-

Additional Tier 1 capital: regulatory adjustments	
Investments in own additional Tier 1 instruments	-
Investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-
Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-
CBUAE specific regulatory adjustments	-
Total regulatory adjustments to additional Tier 1 capital	-
Additional Tier 1 capital (AT1)	-
Tier 1 capital (T1= CET1 + AT1)	1,576,867
Tier 2 capital: instruments and provisions	
Directly issued qualifying Tier 2 instruments plus related stock surplus	-
Directly issued capital instruments subject to phase-out from Tier 2	-
Tier 2 instruments issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-
Of which: instruments issued by subsidiaries subject to phase-out	-
Provisions	101,924
Tier 2 capital before regulatory adjustments	101,924
Tier 2 capital: regulatory adjustments	
Investments in own Tier 2 instruments	-
Investments in capital, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-
Significant investments in the capital, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
CBUAE specific regulatory adjustments	-
Total regulatory adjustments to Tier 2 capital	-
Tier 2 capital (T2)	101,924
Total regulatory capital (TC = T1 + T2)	1,678,792
Total risk-weighted assets	9,097,344
Capital ratios and buffers	
Common Equity Tier 1 (as a percentage of risk-weighted assets)	17.33%
Tier 1 (as a percentage of risk-weighted assets)	17.33%
Total capital (as a percentage of risk-weighted assets)	18.45%
Institution specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency	2.50%
Of which: capital conservation buffer requirement	2.50%
Of which: bank-specific countercyclical buffer requirement	-
Of which: higher loss absorbency requirement (e.g. DSIB)	-
Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.	7.95%
The CBUAE Minimum Capital Requirement	
Common Equity Tier 1 minimum ratio	7.0%
Tier 1 minimum ratio	8.5%
Total capital minimum ratio	10.5%
Amounts below the thresholds for deduction (before risk weighting)	
Significant investments in common stock of financial entities	-
Deferred tax assets arising from temporary differences (net of related tax liability)	-
Applicable caps on the inclusion of provisions in Tier 2	
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	
Cap on inclusion of provisions in Tier 2 under standardised approach	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)	
Current cap on CET1 instruments subject to phase-out arrangements	-
Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-
Current cap on AT1 instruments subject to phase-out arrangements	-
Amount excluded from AT1 due to cap (excess after redemptions and maturities)	-
Current cap on T2 instruments subject to phase-out arrangements	-
Amount excluded from T2 due to cap (excess after redemptions and maturities)	-

3.4 Reconciliation of regulatory capital to balance sheet (CC2)

The following table shows the reconciliation between balance sheet prepared for published financial statements with that prepared for regulatory reporting. The amount shown under the regulatory scope of consolidation is not a RWA measure; it is based on an accounting measure and cannot be directly reconciled to other disclosures in this report which are prepared applying Basel III rules. The variance of AED 209.51 between financial statement and Regulatory scope of consolidation is due to netting of provision and profit in Suspense (PIS).

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	Balance sheet as in published financial statements 6/30/2022	Under regulatory scope of consolidation 6/30/2022
Assets		
Cash and balances at central bank	1,632,366	1,632,366
Deposits & balances due from banks	373,913	373,913
Financing & Other Receivables	7,488,976	7,698,396
Investment Properties	56,875	56,875
Investment Securities	3,593,949	3,593,949
Investments in Subsidiaires	-	-
Property And Equipment, Net	550,506	550,506
Derivative Financial Instruments Asset	13,144	13,144
Investment in Associate	52,641	52,641
Other Assets	145,545	145,638
Asset held for sale due to discontinued operations	-	
Total assets	**13,907,915**	**14,117,428**
Liabilities		
Customer accounts	8,249,906	8,249,906
Deposits from banks	1,783,723	1,783,723
Items in the course of collection due to other banks	-	-
Sukuk Liability	1,912,947	1,912,947
Derivative financial instruments	48	48
Other Liabilities	366,555	577,215
Liabilities held for sale due to discontinued operations	-	-
Total liabilities	**12,313,179**	**12,523,839**
Shareholders' equity		
Paid-in share capital	4,750,000	4,750,000
Tier 1 Sukuk	-	-
Reserves	175,114	175,114
Retained Earnings	(3,064,661)	(3,064,661)
Net Profit for the Year	18,299	18,299
Cumulative Change in Fair Values	(284,017)	(285,164)
Minority Interest	-	
Total shareholders' equity	**1,594,736**	**1,593,589**

3.5 Main features of regulatory capital instruments (CCA)

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	Share capital and share premium
Issuer	AL Hilal Bank PJSC
Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA
Governing law(s) of the instrument	
Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	4750
Nominal amount of instrument	1
Accounting classification	Paid up capital
Original date of issuance	NA
Perpetual or dated	NA
Original maturity date	NA
Coupons / dividends	NA
If yes, specify non-compliant features	NA

3.6 Countercyclical capital buffer (CCyB)

The Bank's countercyclical capital buffer (CCyB) requirement is determined by applying various country-specific CCyB rates to the Bank's qualifying credit exposures in the relevant country (based on the jurisdiction of the obligor) on a weighted average basis. The Group's current CCyB requirement is 0 bps:

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Geographical breakdown	Countercyclical capital buffer rate	Exposure values and/or risk-weighted assets used in the computation of the countercyclical capital buffer		Bank-specific countercyclical capital buffer rate	Countercyclical buffer amount
		Exposure values	Risk-weighted assets		
China (Hong Kong)	1%	12	2.37	0%	0.02
Total		12	2.37	0%	0.02

4. Risk Weighted Assets

4.1 Our approach to measuring risk exposure and risk-weighted assets

Depending on the intended purpose, the reporting of risk exposure may differ under International Financial Reporting Standards (IFRS) when compared to reporting for regulatory capital purposes. Our Pillar 3 disclosures are generally based on risk exposure used to derive the regulatory capital required under Pillar 1. Our risk-weighted assets (RWA) are calculated according to the BCBS Basel III framework, as implemented by the Central Bank of UAE.

4.2 RWA development in Q2-2022

The OV1 table provides an overview of our RWA and the related minimum capital requirements by risk type. Since 2021 end till Q2 2022, RWA increased by AED 0.18 bn to AED 9.09 bn. Insignificant decline in MRWA due to change in regulations on foreign exchange exposure to GCC pegged currencies.

SA-CCR has been adopted from Q1 2022 as part of Counterparty Credit Risk new methodology. In Q2, the RWA has increased in comparison to Q1 2022 due to the increase in MTM of the PRS hedges. For PRS hedges, net MTM has moved to a positive figure in Q2 2022 (Negative in Q1 2022). This is due to increase in USD interest rates. As EAD (Exposure at Default) is sum total of PFE and replacement cost. Since MTM has become positive, replacement cost has increased which has led to increase in EAD.

The Market risk exposure in AHB comprises of only Foreign Exchange Risk. There is no capital requirement from derivatives as there is no trading position. Market Risk RWA has increased compared to Q1 2022 owing to increase in aggregate long and short positions in all currencies excluding USD (since AED is pegged to USD).

4.3 Overview of risk weighted assets (OV1)

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	RWA			Minimum capital requirements
	6/30/2022	3/31/2022	12/31/2021	
Credit risk (excluding counterparty credit risk)	8,144,279	7,995,231	7,973,986	1,058,756
Of which: standardised approach (SA)	8,144,279	7,995,231	7,973,986	1,058,756
Of which: foundation internal ratings-based (F-IRB) approach	-	-	-	-
Of which: supervisory slotting approach	-	-	-	-
Of which: advanced internal ratings-based (A-IRB) approach	-	-	-	-
Counterparty credit risk (CCR)	9,674	4,520	1,523	1,016
Of which: standardised approach for counterparty credit risk	9,674	4,520	1,523	1,016
Credit valuation adjustment (CVA)	27,763	-	-	2,915
Equity investments in funds - look-through approach	-	-	-	-
Equity investments in funds - mandate-based approach	-	-	-	-
Equity investments in funds - fall-back approach	-	-	-	-
Settlement risk	-	-	-	-
Securitisation exposures in the banking book	-	-	-	-
Of which: securitisation internal ratings-based approach (SEC-IRBA)	-	-	-	-
Of which: securitisation standardised approach (SEC-SA)	-	-	-	-
Market risk	100,100	94,148	101,602	10,510
Of which: standardised approach (SA)	100,100	94,148	101,602	10,510
Operational risk	815,528	815,528	964,527	85,630
Total	**9,097,344**	**8,909,426**	**9,041,638**	**1,158,828**

5. Leverage Ratio

The Basel III leverage ratio is calculated by dividing the period-end tier 1 capital by the period-end leverage ratio denominator (LRD), as summarized in the table below.

5.1 Summary comparison of accounting assets versus leverage ratio exposure measure (LR1)

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June 30, 2022	***Amount***
Total consolidated assets as per published financial statements	13,894,771
Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
Adjustments for derivative financial instruments	43,546
Adjustment for securities financing transactions (ie repos and similar secured lending)	-
Adjustments for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	60,963
Other adjustments	(16,723)
Leverage ratio exposure measure	13,982,557

The LRD consists of IFRS on-balance sheet assets and off-balance sheet items. Derivative exposures are adjusted for a number of items, including replacement value and eligible cash variation margin netting, the current exposure method add-on and net notional amounts for written credit derivatives.

The table on the next page shows the difference between total IFRS assets per IFRS consolidation scope and the BCBS total on- balance sheet exposures. Those exposures are the starting point for calculating the BCBS LRD, as shown in the LR2 table in this section. The difference is due to the application of the regulatory scope of consolidation for the purpose of the BCBS calculation. In addition, carrying amounts for derivative financial instruments and (SFTs) are deducted from IFRS total assets. They are measured differently under BCBS leverage ratio rules and are therefore added back in separate exposure line items in the LR2 table.

5.2 Leverage ratio common disclosure (LR2)

The change in leverage ratio is mainly due to the increase in total derivative exposure, which has increased due to increase of replacement cost. This is due to the MTM (mark to market) of PRS hedges becoming positive from negative.

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	6/30/2022	31/12/2021
On-balance sheet exposures		
On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	13,894,771	13,625,146
Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework	-	-
(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	-	-
(Adjustment for securities received under securities financing transactions that are recognised as an asset)	-	-
(Specific and general provisions associated with on-balance sheet exposures that are deducted from Tier 1 capital)	-	-
(Asset amounts deducted in determining Tier 1 capital)	(16,723)	(22,932)
Total on-balance sheet exposures (excluding derivatives and SFTs)	13,878,048	13,602,214
Derivative exposures		
Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	18,399	-
Add-on amounts for PFE associated with *all* derivatives transactions	25,147	32,999
(Exempted CCP leg of client-cleared trade exposures)	-	-
Adjusted effective notional amount of written credit derivatives	-	-
(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
Total derivative exposures	43,546	32,999
Securities financing transactions		
Gross SFT *assets* (with no recognition of netting), after adjusting for sale accounting transactions	-	-
(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
CCR exposure for SFT assets	-	-
Agent transaction exposures	-	-
Total securities financing transaction exposures	-	-
Other off-balance sheet exposures		
Off-balance sheet exposure at gross notional amount	462,409	571,135
(Adjustments for conversion to credit equivalent amounts)	(401,446)	(508,794)
(Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)		
Off-balance sheet items	60,963	62,342
Capital and total exposures		
Tier 1 capital	1,576,867	1,689,113
Total exposures	13,982,557	13,697,554
Leverage ratio		
Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)		
Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	11.28%	12.33%
CBUAE minimum leverage ratio requirement	3%	3%
Applicable leverage buffers	8.28%	9.33%

6. Funding and liquidity risk

The key measures used by the Group for managing liquidity risk are regulatory driven ratios which are Advance to stable ratio ("ASRR"), and Eligible Liquid Asset Ratio (ELAR). ASRR takes into consideration the extent of stable resources (stable funding sources) which are being utilized by the financing activities of the Bank. At 30 June 2022, the Bank's ASRR was 75.93%.
The eligible liquid assets ratio is calculated as per the UAE Central Bank's definition of liquid assets divided by total liabilities. The eligible liquid assets are defined by the Central Bank to include cash and cash equivalents including reserves, central bank certificates of deposits, federal government securities and issuances from local governments, non-commercial and foreign sovereign public sector entities subject to certain limits. As at 30 June 2022, this ratio stood at 17.45%.

6.1 High-quality liquid assets

HQLA must be easily and immediately convertible into cash at little or no loss of value, especially during a period of stress. HQLA are assets that are of low risk and are unencumbered. Other characteristics of HQLA are ease and certainty of valuation, low correlation with risky assets, listing of the assets on a developed and recognized exchange, existence of an active and sizeable market for the assets and low volatility. Our HQLA predominantly consist of assets that qualify as Level 1 in the Eligible Liquid Assets Ratio (ELAR) framework, including cash, central bank reserves and government bonds.

6.2 Eligible Liquid Assets Ratio (ELAR)

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High Quality Liquid Assets	Nominal amount	Eligible Liquid Asset
Physical cash in hand at the bank + balances with the CBUAE	1,545,115	
UAE Federal Government Bonds and Sukuks	-	
Sub Total	1,545,115	1,545,115
UAE local governments publicly traded debt securities	-	
UAE Public sector publicly traded debt securities	1,236,331	
Sub Total	1,236,331	475,420
Foreign Sovereign debt instruments or instruments issued by their respective central banks	-	-
Total	**2,781,446**	**2,020,535**
Total liabilities		11,576,767
Eligible Liquid Assets Ratio (ELAR)		**17.45%**

6.3 Advances To Stable Resources Ratio (ASRR)

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Computation of Advances	Amount
Net Lending (gross loans - specific and collective provisions + interest in suspense)	7,637,086
Lending to non-banking financial institutions	-
Net Financial Guarantees & Stand-by LC (issued - received)	25,326
Interbank Placements	-
Total Advances	7,662,412
Calculation of Net Stable Resources	
Total capital + general provisions	1,728,806
Deduct:	
Goodwill and other intangible assets	16,723
Fixed Assets	533,783
Funds allocated to branches abroad	-
Unquoted Investments (BRF 5- Applicable items)	99,429
Investment in subsidiaries, associates and affiliates	52,641
Total deduction	702,576
Net Free Capital Funds	1,026,230
Other stable resources:	
Funds from the head office	-
Interbank deposits with remaining life of more than 6 months	-
Refinancing of Housing Loans	-
Borrowing from non-Banking Financial Institutions	-
Customer Deposits	7,232,316
Capital market funding/ term borrowings maturing after 6 months from reporting date	1,833,033
Total other stable resources	9,065,349
Total Stable Resources	10,091,579
Advances To Stable Resources Ratio (ASRR)	75.93

7. Credit Risk Management

7.1 Credit quality of assets (CR1)

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	Gross carrying values of		Allowances/ Impairments	Of which ECL accounting provisions for credit losses on SA exposures		Net values
	Defaulted exposures	Non-defaulted exposures		Allocated in regulatory category of Specific*	Allocated in regulatory category of General	
Loans	133,183	7,569,736	208,850	64,321	144,529	7,494,069
Debt securities	-	3,522,016	2,228		2,228	3,519,788
Off-balance sheet exposures	-	33,999	-			33,999
Total	**133,183**	**11,125,751**	211,079	**64,321**	**146,757**	11,047,856

*Including PIS

7.2 Changes in stock of defaulted loans and debt securities (CR2)

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Defaulted loans and debt securities at the end of the previous reporting period	159,277
Loans and debt securities that have defaulted since the last reporting period	37,279
Returned to non-default status	(10,032)
Amounts written off	(33,755)
Other changes	(19,586)
Defaulted loans and debt securities at the end of the reporting period	133,183

7.3 10.3 Credit risk mitigation techniques – overview (CR3)

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	Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
Loans	5,072,100	2,421,968	7,091	-	-	-	-
Debt securities	3,275,353	244,434		244,434	244,434		
Total	8,347,453	2,666,403	7,091	244,434	244,434	-	-
Of which defaulted	24,589	108,595	-	-	-	-	-

7.4 Standardised approach - credit risk exposure and Credit Risk Mitigation (CRM) effects (CR4)

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Asset classes	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
Sovereigns and their central banks	3,174,887	-	3,174,887	-	322,339	4%
Public Sector Entities	505,401	-	505,401	-	214,504	3%
Multilateral development banks	-	-	-	-	-	0%
Banks	907,799	43,546	907,799	43,546	336,730	4%
Securities firms	-	-	-	-	-	0%
Corporates	1,563,665	345,863	1,556,575	18,122	1,438,316	18%
Regulatory retail portfolios	5,146,188	116,546	5,146,188	-	4,200,791	52%
Secured by residential property	1,462,173	-	1,462,173	-	568,939	7%
Secured by commercial real estate	74,169	-	74,169	-	74,169	1%
Equity Investment in Funds (EIF)		-	-	-	-	0%
Past-due loans	68,862	-	68,862	-	71,611	1%
Higher-risk categories	-	-	-	-	-	0%
Other assets	1,149,963	-	1,149,963	-	926,553	11%
Total	**14,053,107**	**505,955**	**14,046,017**	**61,668**	**8,153,953**	**100%**

7.5 Standardised approach - exposures by asset classes and risk weights (CR5)

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Asset classes / Risk weight*	0%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures amount (post CCF and post-CRM)
Sovereigns and their central banks	2,310,155	-	384,939	-	468,883	-	10,910	-	-	3,174,887
Public Sector Entities	244,434	-	-	-	92,925	-	168,042	-	-	505,401
Multilateral development banks	-	-	-	-	-	-	-	-	-	-
Banks	-	-	464,862	-	485,451	-	1,033	-	-	951,345
Securities firms	-	-	-	-	-	-	-	-	-	-
Corporates	7,091	-	-	-	272,761	-	1,301,935	-	-	1,581,788
Regulatory retail portfolios	-	-	-	-	-	3,781,586	1,364,602	-	-	5,146,188
Secured by residential property	-	-	-	1,366,717	-	19,472	75,984	-	-	1,462,173
Secured by commercial real estate	-	-	-	-	-	-	74,169	-	-	74,169
Equity Investment in Funds (EIF)	-	-	-	-	-	-	-	-	-	-
Past-due loans	-	-	-	-	-	-	63,364	5,498	-	68,862
Higher-risk categories	-	-	-	-	-	-	-	-	-	-
Other assets	302,372	-	-	-	-	-	794,950	-	52,641	1,149,963
Total	**2,864,052**	**-**	**849,800**	**1,366,717**	**1,320,020**	**3,801,058**	**3,854,989**	**5,498**	**52,641**	**14,114,775**

7.6 Credit risk measurement and mitigation policies

Strategic objectives set by the Board are the foundation for setting the credit risk management for the Bank.
The key components of the Bank's credit risk management policy are as follows:

- Credits are granted based on insight into the customer's circumstances and based on specific assessments that provide a context for such credit including a combination of qualitative and quantitative criteria.
- The exposure should match the customer's creditworthiness, wealth components, and the client should be able to substantiate his repayment ability.
- The Bank assumes risks within the limits of applicable legislation and other rules, including the rules regarding good business practice for financial enterprises.

The applicable regulatory requirements form the basis of setting credit risk limits in addition to the strategic objectives set by the Board.

Receivables and Ijaras to customers, investment in Sukuks and derivatives are the main sources of credit risk for the Bank. The Bank's risk management policies and processes are designed to identify, analyse and measure risk, to set appropriate risk appetite, limits and controls, and to monitor the risks and adherence to limits by means of reliable and timely data review.

Receivable, Ijara and Securities

7.6.1 Real estate collateral — The Bank accepts real estate collateral (residential, commercial and mixed use) to back income-producing real estate as the repayment source for the facility. In all cases, real estate collaterals are subject to regular re-evaluation by Bank-approved valuers and mortgage registration with the appropriate regulatory authorities. In financing new facilities, the Bank has a policy to obtain valuations from an independent valuator ensure conservatism in determining finance to Value (FTV) ratio.

7.6.2 Guarantees from highly rated banks and government entities — In addition to collaterals, the Bank regularly accepts guarantees from banks and government entities and transfers the risk of the exposure to the better- rated entities. Most of our guarantees are executed using the Bank's standard legal documentation to ensure they are unconditional guarantees to qualify as credit risk mitigants.

Eligible collaterals

As per the standardised approach the following CRMs are considered eligible for capital calculation purposes:

Netting — applicable only with legally enforceable netting agreements in place. However, to use this mitigant, the ability to systematically calculate net exposure must be demonstrated.
Collateral — either the simple or comprehensive approaches may be applied. AHB uses the comprehensive approach. For AHB, collateral primarily includes cash collaterals.

8. Market Risk

8.1 Market risk capital requirement (MR1)

Capital is allocated in respect of market risk under the frameworks set out in the Standards and Guidance issued by the Central Bank of UAE in November 2020. These standards/guidance articulate specific requirements for the calculation of the market risk capital requirement for banks in the UAE. It is based closely on requirements of the framework for capital adequacy developed by the Basel Committee on Banking Supervision (BCBS), specifically as articulated in Basel II: International Convergence of Capital Measurement and Capital Standards, June 2006, and subsequent revisions and clarifications thereto.

The market risks subject to a capital charge are as follows:

profit rate risk;

foreign exchange risk;

equity exposure risk;

commodity risk;

Capital requirement for market risk under standardised approach hereunder:

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Market Risk	6/30/2022	31/12/2021
Profit Rate Risk	-	-
Equity Position Risk	-	-
Foreign Exchange Risk	13,013	13,208
Option Risk	-	-
Commodity Risk	-	-
Total Capital Requirement	**13,013**	**13,208**

Market Risk comprises of only Foreign Exchange change risk. There is not much movement in Capital requirement as compared to last reported numbers as at 31st Dec 2021. The change is due to change in aggregate long and short positions in all currencies excluding USD (since AED is pegged to USD).

9. Counterparty credit risk

Counterparty credit risk (CCR) is the risk that the Group's exposure in a foreign exchange, profit rate, commodity, equity or credit derivative defaults prior to the maturity date of the contract and that the Group at the time has a claim on the counterparty. AHB has very limited exposure to derivative instruments. The derivative instruments are limited to Profit Rate Swaps which are used for hedging purposes, there is no derivative exposure in the trading book. Further, there is no derivatives exposure to CCPs.

9.1 Analysis of CCR exposure by approach (CCR1)

CCR-RWA for Q2'22 has increased compared to Q1'22 from 1.5m to 9.6m which is due to increase in EAD (exposure at default). Replacement cost has increased due to MTM of PRS hedges turning positive from negative.

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	Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
SA-CCR (for derivatives)	13,142	17,962	-	1.4	43,546	9,674
Internal Model Method (for derivatives and SFTs)						-
Simple Approach for credit risk mitigation (for SFTs)						-
Comprehensive Approach for credit risk mitigation (for SFTs)						-
VaR for SFTs						-
Total						9,674

9.2 Credit valuation adjustment (CVA) capital charge (CCR2)

CVA Capital charge implemented from current quarter reporting (Q2'22). AHB follows standardised approach for calculating the CVA capital charge. This has been calculated as per CBUAE Standard for Credit Valuation Adjustment (CVA) Capital.

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	EAD post-CRM	RWA
All portfolios subject to the Standardised CVA capital charge	43,546	27,763
All portfolios subject to the Simple alternative CVA capital charge	-	-
Total subject to the CVA capital charge	**43,546**	**27,763**

9.3 Standardised approach - CCR exposures by regulatory portfolio and risk weights (CCR3)

Counterparty Credit Risk exposures by regulatory portfolio and risk weights has been provided in the next template. There are only banks as counterparty and their risk weights are determined based on the ratings. There has been increase in EAD (exposure at default) compared to last quarter (Q1'22) which is mainly due to increase in replacement cost and PFE. This increase in replacement cost is due to MTM turning positive.

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Risk weight** / Regulatory portfolio*	0%	10%	20%	50%	75%	100%	150%	Others	Total credit exposure
Sovereigns	-	-	-	-	-	-	-	-	-
Non-central government public sector entities (PSEs)	-	-	-	-	-	-	-	-	-
Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-	-
Banks	-	-	40,329	3,217	-	-	-	-	43,546
Securities firms	-	-	-	-	-	-	-	-	-
Corporates	-	-	-	-	-	-	-	-	-
Regulatory retail portfolios	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**40,329**	**3,217**	**-**	**-**	**-**	**-**	**43,546**

9.4 Composition of collateral for CCR exposure (CCR 5)

AHB have not posted or received any collateral for CCR exposure.

9.5 Credit derivatives exposures (CCR6)

AHB does not have any credit derivative exposures.

9.6 Exposures to central counterparties (CCR 8)

AHB does not have any exposure to central counterparties.